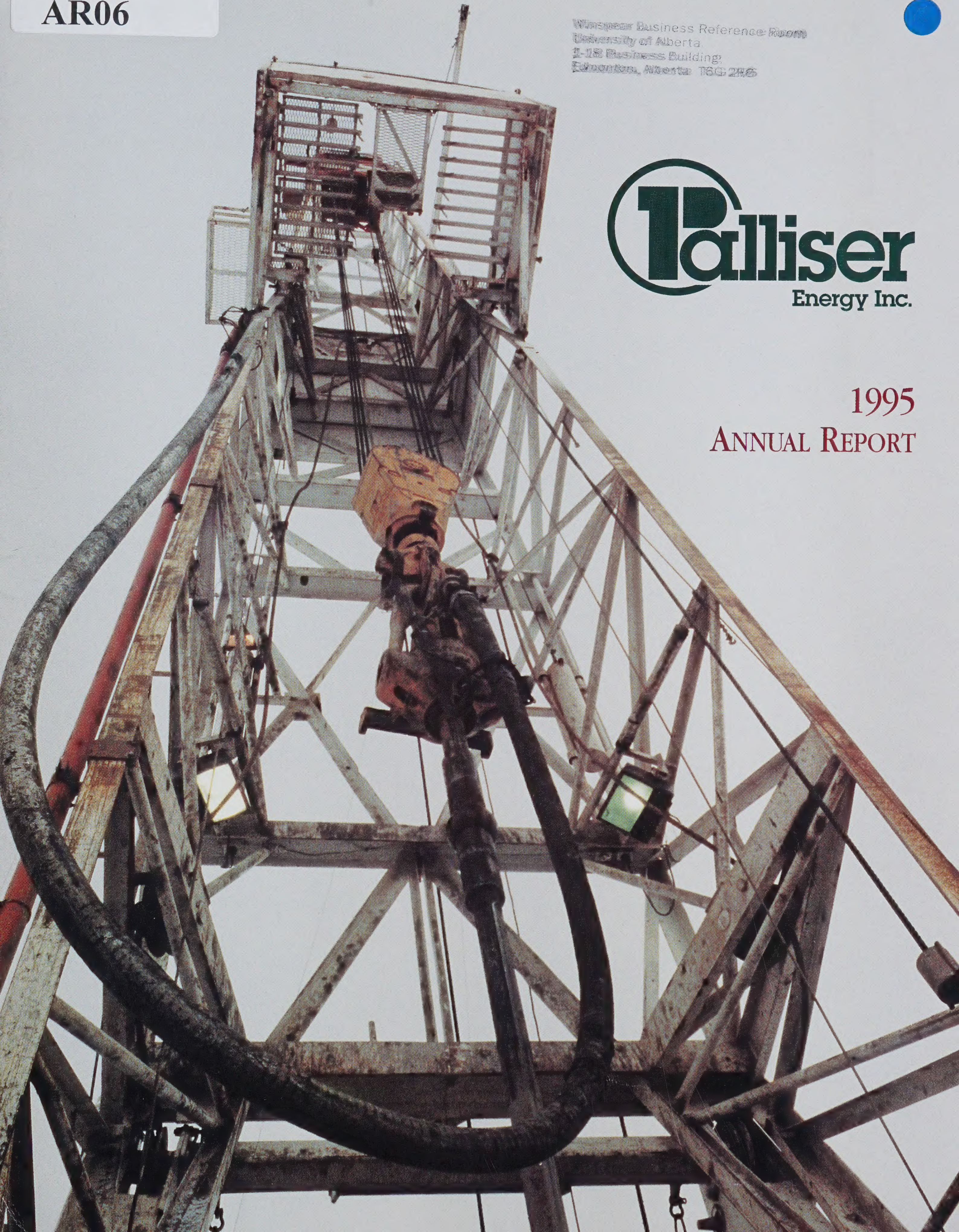

Palliser Energy Inc.

1995 Annual Report

Corporate Profile

Palliser Energy Inc. is an Alberta-based Canadian energy company, incorporated in 1991 and active in the exploration for, and development and production of, oil and natural gas reserves in Western Canada. The Company has interests in a diversified base of producing properties with its current development focus on the Palliser-operated property in the Kinsella Area. The Company also owns and operates 11 service rigs in Alberta through a division operating as Petro Well Servicing.

Notice of Annual and Special Meeting

The Annual and Special Meeting of Shareholders will be held on Wednesday, June 5, 1996 in the Lake Louise Room, at the Westin Hotel, 320 - 4th Avenue S.W., Calgary, Alberta, at 3:00 p.m. All shareholders are encouraged to attend; however, if they are unable, shareholders are requested to complete, sign and return the enclosed form of Proxy to our Transfer Agent, R-M Trust.

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Glossary

Bbl	barrel
Bbls/d	barrels of oil per day
Bcf	billion cubic feet
BOE	barrels of oil equivalent (10 Mcf gas = 1 Bbl oil)
BOE/d	barrels of oil equivalent per day
M	thousand
MM	million
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day (1,000 Mcf/d = 1 MMcf/d)
NGL	natural gas liquids

Map Legend

- Location
- Gas Well
- Oil Well
- Suspended Gas Well
- Suspended Oil Well
- Dual Oil and Gas Well
- Abandoned Oil Well
- Service Well
- Palliser Interest Gas Plant
- Palliser Interest Lands

Cover photograph: Looking up toward the crown of a drilling rig.

Corporate Highlights

	Years Ended December 31		
	1995	1994	Change
FINANCIAL			
Revenue - Oil and Gas	**$2,640,708**	$2,909,886	(9%)
- Well Servicing	**$3,922,389**	N/A	N/A
Funds from Operations	**$1,466,756**	$1,421,533	3%
Per Share	**$0.10**	$0.13	
Net Earnings	**$4,842**	$284,494	(98%)
Per Share	**Nil**	$0.03	
Capital Expenditures	**$3,062,102**	$2,984,181	3%
Debt	**$2,993,320**	$1,400,000	114%
Shareholders' Equity	**$9,095,142**	$7,517,950	21%
Weighted Average Number of Common Shares Outstanding	**15,024,192**	11,054,054	
OPERATING			
Gas Reserves (Bcf)			
Proven	**16.280**	13.830	18%
Probable	**1.360**	3.694	(63%)
Total	**17.640**	17.524	-
Oil & NGLs Reserves (MBbls)			
Proven	**1,002**	616	63%
Probable	**933**	11	8382%
Total	**1,935**	627	209%
Daily Production			
Gas (Mcf/d)	**3,477**	3,227	8%
Oil & NGL (Bbl/d)	**167**	144	16%
Average Sales Price			
Gas ($/Mcf)	**$1.26**	$1.90	(34%)
Oil & NGL ($/Bbl)	**$20.77**	$19.06	9%
Present Value of Proven Reserves at 15% Disc.	**$15,125,000**	$14,502,000	4%
Operating Costs ($/BOE)	**$5.95**	$5.14	16%
Wells Drilled			
Gross	**18**	20	(10%)
Net	**3.60**	2.15	67%
Land Holdings			
Gross Acres	**306,458**	298,514	3%
Net Acres	**42,853**	43,056	Nil

Report to Shareholders

The past year was one of exciting developments for Palliser Energy Inc. Over the course of the year, the Company successfully absorbed the purchase of Petro Well Servicing to help strengthen its cash flow base. The strategy proved particularly effective as a strong contribution from that division helped offset the weak price of natural gas. Despite limited funds being available for capital reinvestment, the Company was able to increase oil and gas production by 10% and increase reserves as a result of a successful drilling program. Proven remaining reserves of oil and natural gas liquids increased 63% to just over one million Bbls while natural gas reserves increased 18% to 16.3 Bcf, largely due to drilling in the Kinsella and Sunnynook areas of east-central Alberta. Production averaged 167 Bbls and 3,477 Mcf/d for oil and gas respectively. The Company recorded $1.47 million in cash flow for the year of which $555,000 was recorded in the fourth quarter. With a strong foundation now in place, management anticipates continued growth in 1996.

All of Palliser's activity is intended to build shareholder value, the ultimate barometer of corporate success. Management is pleased to have achieved its 1995 goals and objectives while maintaining a strong financial base.

1995 Operating Highlights

- Production of natural gas averaged 3,477 Mcf/d, an increase of 8% over the 1994 level of 3,227 Mcf/d; oil production increased 16% to 167 Bbls/d as compared to the 144 Bbls/d recorded in 1994.
- During 1995, Palliser participated in the drilling of 18 gross wells (3.6 net) with a success rate of 89%, resulting in 8 oil wells (1.1 net) and 8 gas wells (2.0 net). Of these wells, 10 were exploratory and 8 were development wells.
- Late year production additions at Sunnynook, Kinsella and Westerose of 1,250 Mcf/d more than offset the decreased production level of 600 Mcf/d due to the October 1995 sale of the Dobson property. At year end daily production volumes of natural gas were in excess of 4.0 Mmcf/d.
- In Kinsella, Palliser participated in drilling two exploratory wells, in which the Company holds a 22.2% and 47.3% working interest, respectively. Both were successfully completed as Sparky oil wells and were key in establishing a new oil pool. Since January 1, 1996, more than 40 oil wells have been drilled by a major oil company in the vicinity of these new wells. A significant portion of the Palliser 1996 capital budget has been allocated to develop the offsetting Company interest lands in this area.
- As a result of 1995 drilling activity, net reserve additions were significant. As at December 31, 1995, remaining proven reserves of oil and natural gas liquids (NGLs) increased 63% to one million Bbls as compared to the 616,000 Bbls of 1994, while natural gas reserves increased 18% to 16.3 Bcf from the 13.8 Bcf in 1994. These increases were net of 1995 production of 61,000 Bbls of oil and NGLs and 1.3 Bcf of natural gas, as well as the sale Palliser's interests in the Dobson area. The present value (discounted at 15%) of proven oil and gas reserves at year end amounted to $15.1 million.
- Probable (additional) oil reserves at year end stood at 933,000 Bbls, largely in the area adjacent to the Sparky oil development currently underway in Kinsella. Further evaluation work is being undertaken to establish the full extent of the Sparky reservoir in the area.
- Palliser reserves were evaluated by Henderson & Associates - independent engineer, as at January 1, 1996.

1995 Financial Highlights

- Revenues increased 12.5% to $6,563,097 compared with $2,909,886 in 1994 due to the added contribution of $3,922,389 from the Petro Well division for the 9 months following the purchase by Palliser.
- Cash flow for 1995 of $1,466,756 million ($0.10 per share) was essentially unchanged from 1994. Fourth quarter cash flow of $555,000 ($0.04 per share) was 27% greater than the $437,320 ($0.03 per share) recorded in the corresponding period in 1994.
- Capital expenditures in 1995 amounted to $3.06 million compared to $2.98 million in 1994. The current amount includes $714,000 spent on mobilization and other capital improvements to the service rigs, but excludes the costs associated with the purchase of Petro Well Servicing.

Report to Shareholders

- In 1995, the sale of the Company's interest in the Dobson area of east-central Alberta netted Palliser $1.45 million, including $850,000 in the fourth quarter. These funds helped finance the 1995 capital program while maintaining the Company's indebtedness at a manageable level.
- The value of Company assets as reflected on the balance sheet at year end was $15.5 million ($9.9 million in 1994) with a related long-term debt level of $3.0 million ($1.4 million in 1994). Palliser's current debt is approximately one times 1996 forecasted cash flow. Management remains committed to maintaining the Company's debt level below 1.5 times annual cash flow and in balancing the available capital with its investment in oil and gas properties.

Petro Well Servicing

The purchase of Petro Well Servicing by Palliser was an opportunity to diversify and develop an alternate source of capital to be reinvested in oil and gas properties. Equally important was the opportunity to make the acquisition on favorable terms at a time when access to the capital markets was limited for smaller market-cap companies such as Palliser.

After a slow start for Petro Well rig activity following the April 1, 1995 purchase, the new division has outperformed even our most optimistic expectations. Petro Well activity gained momentum throughout the third and fourth quarters of 1995 and into the first quarter of 1996. We anticipate that current high levels of activity in the oil and gas industry will sustain continued demand for our service rigs. Historically, the majority of Petro Well's operating activity and revenue is generated in the second half of the year. In 1995, Petro Well's rig utilization rate was greater than 75%.

Petro Well, whose operations are conducted separately from those of Palliser, is a well-managed organization with a dedicated, knowledgeable group of people under the capable direction of James Fleming as General Manager.

Outlook

Palliser will continue to focus on new exploration activity in areas where the Company has high working interests. Post year end drilling in the Taber area has already resulted in two successful wells in which Palliser has an average working interest of approximately 30%. These wells flowed 6,400 Mcf/d and 2,400 Mcf/d, respectively, on drill stem tests. In addition to the 1996 activity at Kinsella, where the Company has a significant undeveloped land position in a 30-square mile area, exploration is continuing at Arrowwood, Corbett Creek, Taber and Gordondale.

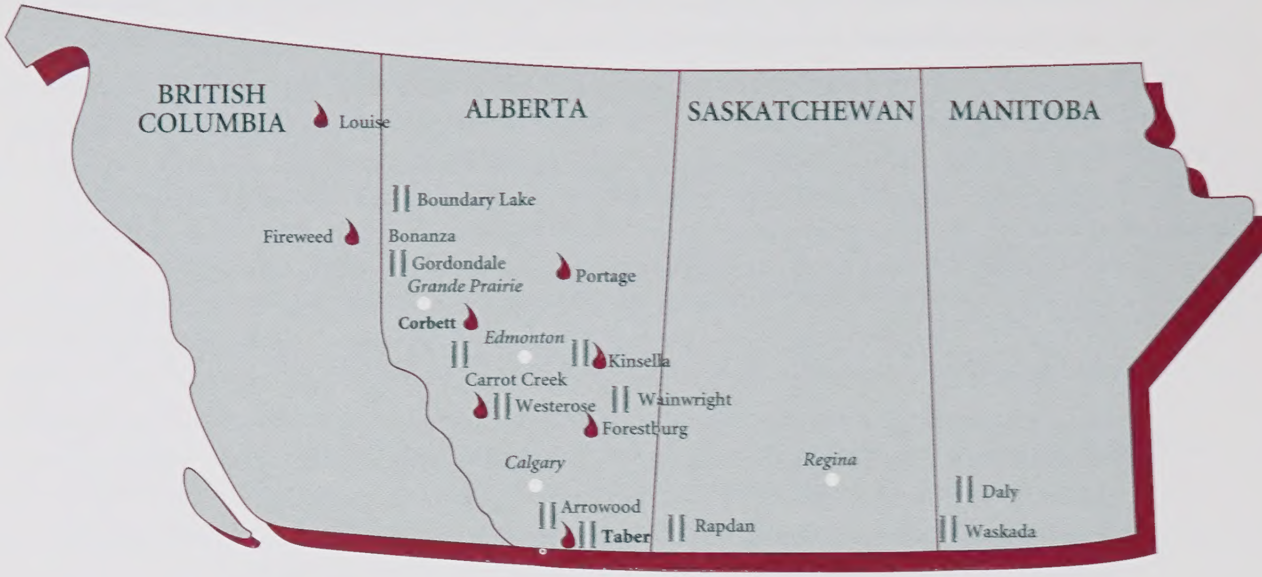
The Company has laid the foundation for new growth in 1996 and is now in an enviable position to capitalize on these successes. Having made significant strides to advance the interests of shareholders during 1995, and with a proven, successful strategy in place, the outlook for 1996 is optimistic. First quarter operating margins for oil and gas, as well as the service rig division, are expected to boost Company income to record levels. The stage is set for significant production gains as the Company moves towards the 1,000 BOE/d level, to be complimented by a strong contribution from Petro Well Servicing.

The Palliser management team is pleased to have the opportunity to share its excitement with shareholders and we look forward to reporting on our progress.

In closing, I would like to extend my appreciation to the Board of Directors and employees of Palliser, including those of the Petro Well division, for their contribution to our success in 1995. I would also like to thank the shareholders for their continued support.

William Tobman
Chairman of the Board of Directors
Calgary, Alberta

Activity Report



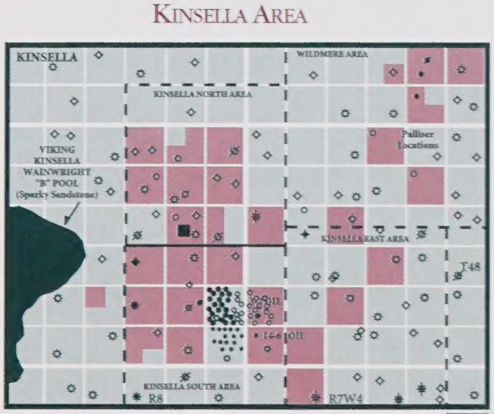
Consistent with the operating strategy of building Palliser's oil and gas production base through drilling, the Company has concentrated its activity on low-risk, multiple zone areas on its core properties. During 1995, Palliser participated in 18 gross wells (3.6 net) with an average working interest of 20% and a success rate of 89%. Eight of the wells were gas wells (1.1 net), eight were oil wells (2.0 net) and two wells were dry and abandoned holes (0.5 net). Exploration successes at Kinsella and Sunnynook were key to the addition of a net 650,000 BOE at a finding and development cost of approximately $3.50 per barrel.

As part of its ongoing commitment to new exploration, Palliser spent $1,250,000 in drilling and completions; $547,000 on facilities and equipment and $310,000 on geophysical work, including over 50 kilometers of new seismic shooting.

Palliser has extensive land holdings in which to expand its reserve base and increase production levels in 1996 and plans to do so with a particular emphasis on developing the Sparky oil pool in the Kinsella area. In 1995, the Company spent $243,000 in acquiring new leases of petroleum and natural gas rights. At year end, Palliser had interests in approximately 306,458 gross acres (42,853 net acres).

In addition to the development work, Management expects to drill no fewer than six exploratory wells in 1996 in Arrowwood, Taber, Kinsella, Corbett Creek and Jumpbush. The Company is committed to continued exploratory work in key areas where it has an established presence, a meaningful working interest and able to expand its productive capacity through its existing network of plants and gathering systems.

Kinsella Area

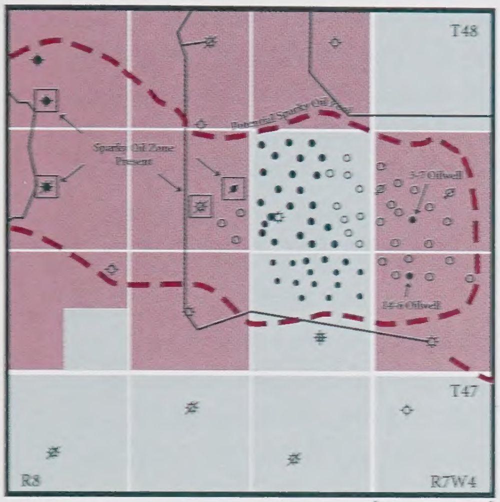


Kinsella Area

In the past several years, Palliser has acquired extensive interests in Kinsella with a view to establishing a strong operating presence in this area. Kinsella consists of four sub-areas, each of which is geologically and economically unique. Kinsella is now the Company's primary core property. Palliser is the single largest land holder in the area, owning an interest in 17,500 gross acres (10,850 net) for an average working interest of 60%. In addition to being the operator of most of these lands, Palliser is the majority interest owner of a gas plant in the area with current production in excess of 2,000 Mcf/d. With the extensive Company-owned infrastructure in place, these facilities have the capacity to double the existing gas production, at minimal expense to Palliser.

Activity Report

Kinsella-South Area



Kinsella-South Area

During 1995, Palliser participated in two exploratory successes in Kinsella-South. The wells at 3-7 and 14-6-48-7 W4M, in which the Company owns 22.2% and 47.3% working interest, respectively, were completed as Sparky oil wells and gave rise to the major oil development currently underway in the area.

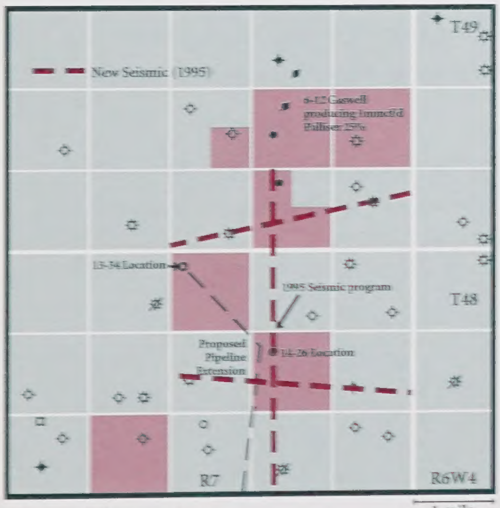
Reserve and production parameters for this oil reservoir appear to be similar to the nearby Wainwright B pool. The oil wells typically produce between 30 and 40 Bbls/d per well. The productive area is being developed on a 20-acre spacing (16 wells per quarter section). While the 18° API oil gravity is marginally lower than the nearby Wainwright B field (20° gravity), the oil quality is similar while the reservoir porosity is somewhat higher. Recoverable reserve parameters of 130,000 Bbls per well will give this project a reserve life index of over 20 years. Secondary recovery through water injection will be implemented as part of the initial development program currently underway.

Recent activity in the area has been intense. Since the beginning of 1996, a major oil company has drilled and cased 40 Sparky oil wells with a 100% success rate and has licensed an additional 18 wells. Drilling is currently ongoing to complete this development program. Palliser will participate as to a 22.2% working interest in 13 of the wells in Section 7, scheduled to be drilled in May 1996. The offsetting development in Section 6, in which Palliser is operator and holds a 47.3% working interest, is expected to get underway in late June, 1996. A 'mini' 3-D seismic program was completed in March, 1996 to help delineate the extent of the oil reservoir in this vicinity. Initially, the Company expects to drill six wells offsetting the 14-6 oil well.

In addition to the ongoing development program, Palliser will conduct further drilling to evaluate its extensive land holdings in the area; the Company owns interests varying from 47.3% to 100% in the four sections of land immediately north and west of the area currently under development. Offsetting well-control supports the extension of the oil reservoir onto Company-interest lands to the West.

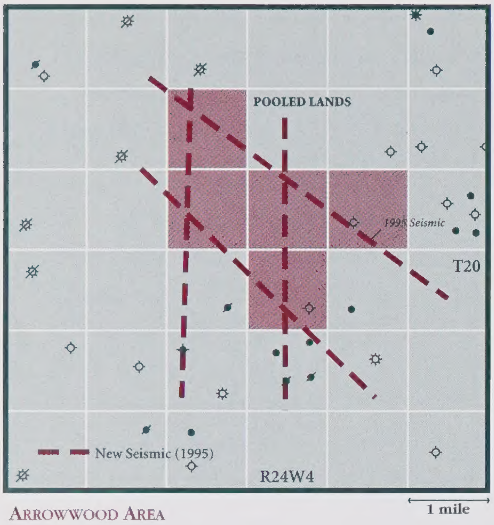
Kinsella-South will be Palliser's major focus area in 1996, and key to further reserve and production additions. The Company will initially spend approximately $1.8 million of its $3.3 million 1996 capital budget in this area, with the program expected to expand later in the year based on available capital.

Kinsella-Wildmere Area

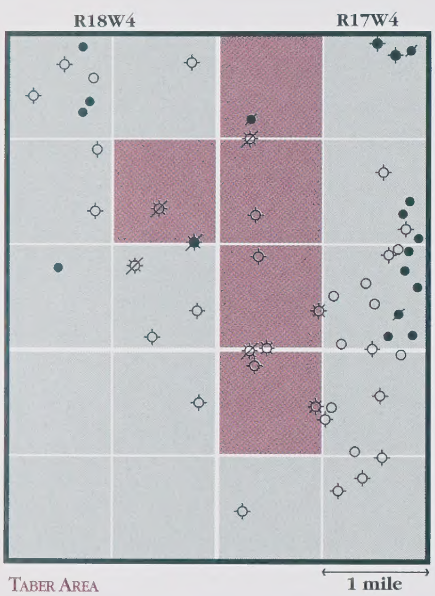


Kinsella-Wildmere Area

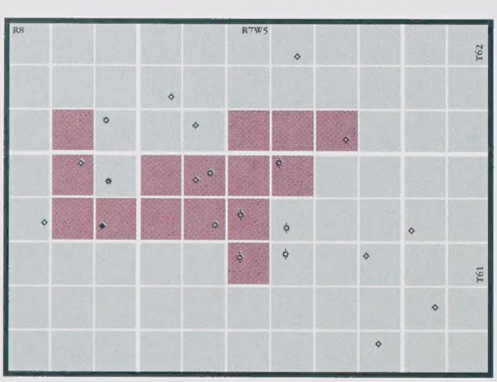
In late 1995, Palliser completed a 16 km 2-D seismic program primarily designed to evaluate Mannville formation gas-bearing sands. Two locations will be drilled as a result of this program. The Company plans to evaluate an excellent Colony sand anomaly at a location in 13-34-48-7 W4M and a multiple gas sand prospect under land which Palliser controls in Section 26 at a location in 14-26-48-7 W4M. Both locations could generate reserves of one to two Bcf per section which would be tied in to the Company-owned facilities in the area. The Company will retain a majority working interest in both wells to be drilled in the second quarter of 1996.



ARROWWOOD AREA



TABER AREA



CORBETT CREEK AREA

Arrowwood Area

Palliser owns a 46.875% working interest in five prospective sections of land at Arrowwood. This prospect is a "high-risk, high-reward" type prospect. In the fall of 1995, Palliser and an industry partner completed a 24 kilometer seismic program to evaluate a Glauconitic channel sand lead which had been developed from geological mapping and trade seismic data. The companies intend to drill and evaluate the first of several quality anomalies late in the third quarter of 1996. Successful wells in this type of pool are generally oil bearing and have production capabilities in the 150 to 200 Bbls/d range.

Taber Area

Palliser has added meaningful gas reserves in the Taber area as a result of three gas discoveries; the first was drilled in 1995 while the other two were drilled in early 1996. A Sunburst gas well in which Palliser owns an 11.25% working interest and two Taber gas wells with 28.6% and 30.5% Palliser working interests, respectively, have been completed and are expected to be tied in during the early summer of 1996. These wells are expected to initially add a net one MMcf/d to the Company's production base. As one of the wells tested oil in addition to gas, there is the potential to drill several oil wells on the Palliser interest lands.

Corbett Creek Area

During the last quarter of 1995 and the first quarter of 1996, Palliser participated in drilling and completing two gas wells on two of the 15 sections controlled on this prospect. Company interests vary from 7.5% to 25%. The 7-32-61-7 W5M well, in which Palliser has a 19% working interest, was completed in 1995 and is capable of producing approximately one MMcf/d. The 13-34-61-7 W5M well (16.88% working interest) is presently being completed and is expected to produce at the same level. These two wells, together with the 6-29-61-7 W5M well (25% working interest) completed in late 1993, should provide sufficient gas reserves to justify tieing in all three wells by the third quarter of 1996.

Gordondale Area

The horizontal re-entry attempt of our 8-10-80-10 W6M oil well, in which Palliser has a 25% working interest, has not been as successful as originally hoped. Palliser and its partners are continuing to evaluate information obtained from the completion attempt.

Jumpbush Area

Two new Glauconitic oil wells have been placed on production in the last quarter of 1995 and the first quarter of 1996. Sustained production levels for these wells are in the 100 Bbls/d range. Palliser has a 7.5% working interest in the pool.

Management's Discussion and Analysis

In the past year Palliser maintained its record of achieving historical growth in terms of production increases and reserve additions by way of discoveries in existing and new core areas. The Company has also diversified its cash flow base through the purchase of the Petro Well Servicing division. Increases in the Company's production and asset base were accomplished during a period of weak product prices and the limited access to conventional equity financing. The following financial highlights also include the nine months of Petro Well Servicing operations, from April 1, 1995. For segmented information, please refer to note 3 of the audited financial statements for the year ended December 31, 1995.

Operating Revenue and Expenses

Total Revenues increased to $6,563,097 in 1995. Oil and gas revenues net of royalty burdens and Alberta Royalty Tax Credit (ARTC) amounted to $2,640,708 in 1995 compared with $2,909,886 in 1994, due mainly to the weakening of natural gas prices experienced by the industry. Royalties net of ARTC decreased by 7% to $228,873 from $322,344 in 1994, in direct proportion to the reduced revenue. The impacts of lower natural gas prices were partially mitigated by a marginal increase in both oil and gas production.

Total production on a BOE basis jumped 10% to 515 BOE/d from 467 BOE/d in 1994. Service rig revenue was $3,922,389 for the nine months of operations subsequent to the acquisition of Petro Well Servicing by the Company on March 31, 1995. Total rig utilization was over 14,000 hours during the period despite an unusually long spring break-up and an unseasonably wet summer in 1995.

Operating Expenses

Operating Expenses were substantially higher at $3,637,587 in 1995 compared to $876,051 in the previous year primarily due to the addition of the well servicing division. The oil and gas operations account for $1,117,076 of total operating expenses, an increase of $241,025 from 1994. This increase was the result of higher production volumes and high start up costs associated with new projects being brought on stream. The firming of natural gas prices in the first quarter of 1996, combined with the streaming of new project production, should correct this anomaly in the coming year. Well servicing expenses were $2,520,511 for the year, resulting in a gross margin of 35.7% compared to the oil and gas operation's gross margin of 57.7% in 1995.

Netbacks and Operating Margins

Netbacks and Operating Margins are summarized as follows:

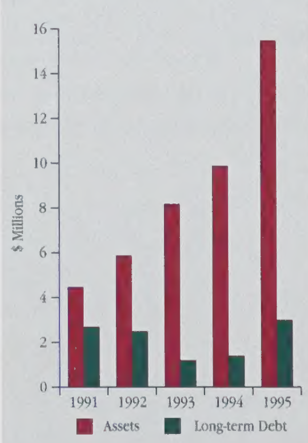
	Oil & Gas/BOE	
	1995	1994
Sales Price	**$15.27**	$18.97
Royalties net of ARTC	**$ 1.22**	$ 1.89
Operating Expenses	**$ 5.95**	$ 5.14
Netbacks/Margins	**$ 8.11**	$11.94

Oil & Gas per BOE (10:1)

Operations - Years Ended December 31

	1995	1994	1993
Total			
Oil & Gas NGLs (MBbls)	60,910	51,585	36,233
Average sale price per barrel	$20.77	$19.06	$19.70
Gas (MMcf)	1,269	1,118	633
Average sale price per Mcf	$1.26	$1.90	$1.71
Per Day			
Oil & NGLs (Bbls)	167	144	112
Gas (Mcf)	3,477	3,227	1,733

Rising Asset Growth vs. Reduced Debt Levels



Management's Discussion and Analysis (continued)

General and Administrative Expenses

General and Administrative Expenses were $1,203,754 compared to $509,695 in 1994, reflecting the addition of the well servicing division in March of 1995. G&A related to oil and gas operations amounted to $2.20 per BOE compared to $2.99 per BOE in 1994.This reduction was mainly due to higher production volumes and a higher capitalization rate in 1995 related to the Company's increased exploration activities.Administrative expenses for the servicing division were $57.68 per rental hour in 1995 and are expected to decrease in 1996 with anticipated increases in rig utilization.

Interest Expenses were $255,000 in 1995 compared to $102,607 in 1994, reflecting additional borrowing to finance the acquisition of Petro Well Servicing.The average borrowing costs in 1995 were 9.95% compared to 7.55% in 1994.

Depletion and Depreciation

Depletion and Depreciation increased to $1,351,069 in 1995 including the provision of $408,427 for service rigs and related assets. On a BOE basis, the depletion rate for the oil and gas assets was $3.05 per BOE in 1995 compared to $3.10 per BOE in 1994.This represents a 4.8% rate reduction resulting from new proven reserve additions mainly at Kinsella and Sunnynook in the fourth quarter of 1995. Depreciation of the service rigs and related equipment was $28.55 per rental hour and is not expected to vary significantly from year to year.

Cash Flow and Earnings

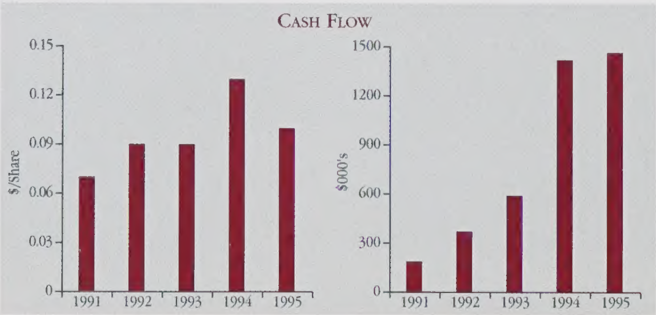
Cash flow increased to $1,466,756 from $1,421,533 in 1994 while earnings for the year decreased to $4,842 from $284,494 in the previous year.The increase in cash flow was mainly due to the contribution of $536,931 from the well servicing division; however, the lower earnings were caused by the poor netbacks from oil and gas operations due to weak natural gas prices for most of 1995. During the fourth quarter of 1995, the industry experienced a strengthening in natural gas prices due to the extreme winter conditions throughout North America.This resulted in a stronger fourth quarter performance by the Company with earnings of $133,767; an increase of 92% over the $69,630 recorded in 1994. Cash flow for the fourth quarter of 1995 increased accordingly to $555,002 compared with $437,320 in 1994, an increase of 27%.

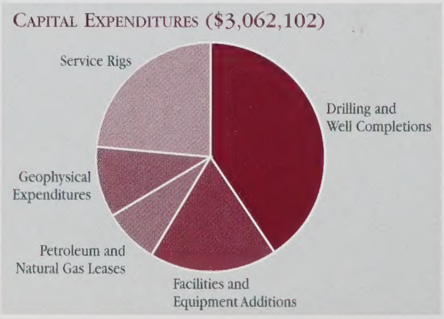
Capital Expenditures

Capital Expenditures of $3,062,102 in 1995 compared to $2,984,181 in 1994 were funded by $1,466,756 in internal cash flow and $1,453,118 in property dispositions.The acquisition of Petro Well was funded by the issuance of 2.875 million common shares with an ascribed value of $1,581,250 or 55 cents per share. During the year, $714,547 was incurred by the service rig division including the mobilization of three rigs in order to increase operation efficiency and utilization in this sector. Of the remaining $2,347,528 in capital expenditures for the oil and gas division, 53% ($1,247,363) was spent on drilling and completions, 23% ($547,455) on facility construction, 13% ($309,716) on seismic and the balance 11% ($242,994) on land acquisitions.

Liquidity and Capital Resources

The Company has a planned capital expenditure program of $3,300,000 for 1996.This will be funded by internal cash flow which for 1996 is projected at $2,900,000.The shortfall of approximately $400,000 will be financed by either minor property dispositions or a temporary drawdown from the revolving loan facility. Currently, the Company is negotiating with its banker as to an increase the revolving loan facility to a maximum of $5,000,000. Due to the magnitude of the development program at Kinsella, we anticipate that our capital requirements will exceed our budget and as a result management will look to the equity markets to raise the required capital.





Business Risks

Palliser has a diversified business profile - oil and gas exploration and well servicing, with each division having inherent business risks brought on by the oil and gas industry.

Commodity, Exchange Rate and Interest Rate Risk

Palliser operates in an environment where the Company's principle outputs, oil and natural gas, are subject to supply and demand fundamentals which are outside its control.

Management predicts that natural gas prices will continue to be volatile owing to industry factors such as pipeline constraints and bottlenecks and uncertainty in international markets. Commodity prices may also impact the well servicing division.

To this end, Palliser plans to fund its 1996 capital expenditures program from internally generated cash flow and possibly an equity issue; credit facilities will be used on an as-need basis to cover short-falls.

Environment and Safety

Palliser is committed to the protection and maintenance of the environment throughout our operations and has adopted a formal environmental policy. The Company recognizes that its field operations have an impact on the local environment and have committed to minimize this impact and to reclaim all areas where operations are completed. Palliser conducts its operations utilizing the Environmental Operating Guidelines for the Alberta Petroleum Industry and the Company is in material compliance with current environmental laws and regulations.

Palliser is committed to the safety of its staff, contract workers and residents of the areas in which it operates and applies the highest safety standards at all sites. The Company's Safety Program is continually reviewed and revised to reflect the ever-changing needs and policies of industry standards and accountability towards safety and a good quality of work life.

Recently, Palliser's service rig division, Petro Well Servicing, was awarded the corporate "Certificate of Recognition" by the Alberta Labour and Canadian Association of Oilfield Drilling Contractors, recognizing that the Company's health and safety programs meet industry standards. In addition to its safety program, Petro Well provides a drug and alcohol abuse program for its staff. As well, the division is instituting safety incentives and preventative maintenance as a method of increasing productivity and further reducing operating costs.

Outlook

Despite low gas prices in 1995, Palliser remained focused on its growth strategy of exploring for and developing oil and gas reserves in low-risk, low-cost areas. Our emphasis is in areas with multiple pay potential in central and southern Alberta. We have a strong inventory of land and prospects, and the Company will continue to expand its production base through exploratory and development drilling together with strategic acquisitions of producing properties.

With its most aggressive investment program ever, Palliser is forecasting dramatically improved results in 1996 in the context of an expanded production base. To achieve Palliser's growth potential the Company will drill thirty wells in 1996 with an average working interest of 25%. As well, the Company plans to optimize available Company-owned plant production capacity in existing gas plants. To do so, Palliser will conduct additional drilling for gas at Kinsella, with at least three additional wells planned for 1996. In other areas, we plan to purchase existing producing properties to consolidate our production base and build on the facilities infrastructure in place.

Palliser's outlook for 1996 remains positive having forecasted a capital budget of $3.3 million, financed primarily from cash flow, projected to be approximately $2.9 million based on the following parameters for the year:

- Oil Production - Average 300 Bbls/d
- Gas Production - Average 5.5 MMcf/d
- Oil Price - Average $20.00 per Bbl
- Gas Price - Average $1.41 per Mcf
- Service Rig Utilization Rate - 75%

During the first quarter of 1996, the industry saw the firming of oil and natural gas prices and an increased demand for service rigs. This trend is expected to continue for the balance of the year and the Company is optimistic about achieving its original projections.

Management's Report to the Shareholders

The Management of Palliser Energy Inc. is responsible for the preparation of the accompanying financial statements in accordance with generally accepted accounting principles and, where necessary, include amounts based on management's informed judgements and best estimates under the circumstances. Other financial information presented elsewhere in this report is consistent with the financial statements and the underlying information from which these statements were prepared.

Management also develops and maintains, consistent with reasonable costs, appropriate systems of internal controls to provide reasonable assurance that assets are safeguarded, transactions are authorized and recorded for the preparation of reliable financial statements.

Coopers & Lybrand, the independent external auditors appointed by the Shareholders has audited the financial statements and expressed an opinion herein. The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee, consists of a majority of non-management directors, reviews the financial information of the Annual Report and meets with Management and Coopers & Lybrand to discuss internal controls, accounting, auditing and financial reporting issues. The Board of Directors has approved the financial statements based on the Committee's recommendation.

William Tobman
President and Chief Executive Officer

John Y. Ho
Chief Financial Officer

Auditors' Report

We have audited the balance sheets of Palliser Energy Inc. as at December 31, 1995 and 1994 and the statements of earnings and retained earnings, and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Coopers & Lybrand

Chartered Accountants
Calgary, Alberta
April 4, 1996

Balance Sheets

as at December 31, 1995 and 1994

	1995 $	1994 $
Assets		
Current Assets		
Cash	23,224	8,919
Accounts Receivable	2,059,057	690,778
Prepaid Expenses and Other Assets	54,377	11,903
	2,136,658	711,600
Property, Plant and Equipment (notes 4 and 5)	13,383,062	9,198,213
	15,519,720	9,909,813
Liabilities		
Current Liabilities		
Bank Operating Loan (note 6)	320,000	0
Accounts Payable	1,522,915	750,535
Income Taxes Payable	140,614	0
Current Portion of Long-Term Debt (note 5)	248,920	0
	2,232,449	750,535
Long-Term Debt (note 5)	2,744,400	1,400,000
Note Payable (note 9)	77,900	0
Provision for Abandonment Costs	140,900	49,622
Deferred Income Taxes	1,228,929	191,706
	6,424,578	2,391,863
Shareholders' Equity		
Share Capital (note 7)	8,128,226	6,555,876
Contributed Surplus	648,760	648,760
Retained Earnings	318,156	313,314
	9,095,142	7,517,950
	15,519,720	9,909,813

Signed on behalf of the Board

William Tobman
Director

Jan Horejsi
Director

Statements of Earnings and Retained Earnings

For the Years Ended December 31, 1995 and 1994

	1995 $	1994 $
Revenue		
Oil and Gas	2,869,581	3,232,230
Royalties	(451,250)	(453,611)
Alberta Royalty Tax Credit	222,377	131,267
	2,640,708	2,909,886
Well Servicing	3,922,389	0
	6,563,097	2,909,886
Expenses		
Operating	3,637,587	876,051
General and Administration	1,203,754	509,695
Interest	255,000	102,607
Depletion and Depreciation	1,351,069	903,333
	6,447,410	2,391,686
Earnings Before Income Taxes	115,687	518,200
Deferred Income Taxes (note 8)	110,845	233,706
Net Earnings	4,842	284,494
Retained Earnings, Beginning of Year	313,314	28,820
Retained Earnings, End of Year	318,156	313,314
Earnings Per Share (note 7)	NIL	$0.03
Segmented Information (note 3)		

Statements of Changes in Financial Position

For the Years Ended December 31, 1995 and 1994

	1995 $	1994 $
Operating Activities		
Net Earnings for the year	4,842	284,494
Items not affecting cash -		
Depletion and Depreciation	1,351,069	903,333
Deferred Income Taxes	110,845	233,706
Funds from Operations	1,466,756	1,421,533
Changes in non-cash operating balances	(653,629)	(401,954)
	813,127	1,019,579
Financing Activities		
Bank Operating Loan	320,000	0
Long-term Debt	313,320	165,647
Common shares issued for cash	0	1,816,667
Common shares issued on acquisition	1,548,215	0
Stock options exercised	9,600	31,990
	2,191,135	2,014,304
Investing Activities		
Abandonment and site restoration	1,670	(13,288)
Additions to property, plant and equipment	(3,062,102)	(2,984,181)
Proceeds from sale of property, plant and equipment	1,453,118	106,792
Acquisition of Petro Well Servicing (Note 2)	(1,382,643)	0
	(2,989,957)	(2,890,677)
Increase in Cash	14,305	143,206
Cash (Bank Indebtedness) - Beginning of Year	8,919	(134,287)
Cash - End of Year	23,224	8,919
Funds from Operations Per Share (note 6)	$0.10	$0.13

Notes to Financial Statements

1. Significant Accounting Policies

Joint Ventures

Substantially all the exploration and development activities related to oil and gas are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

Oil and Gas Properties

The Company follows the full cost method of accounting whereby all costs of exploration for and development of oil and gas reserves are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and administrative expenses related to exploration activities. All recoveries of costs through sale of petroleum and natural gas properties and incentive payments are credited against the cost of oil and gas properties except when a disposition would result in a significant change in the Company's depletion rate, in which case a gain or loss is computed and recognized.

Oil and gas properties, less unproven land of $682,000 (1994 - $718,000) are depleted using the unit-of-production method based on estimates of gross proved reserves before royalties and combines oil and natural gas on an energy equivalent basis. For certain properties independent evaluation reports are not available and estimates have been determined by management.

In applying the full cost method, the Company calculates a cost centre ceiling which restricts the capitalized costs less accumulated depletion and depreciation and related deferred income taxes from exceeding an amount equal to the estimated future net revenues from proven reserves (after adjusting for estimated future general and administration, financing costs, site restoration and abandonment and corporate income taxes, if any) plus the lower of cost and estimated fair value of the Company's undeveloped acreage. If capitalized costs exceed the "cost centre ceiling", the excess costs are written-off as additional depletion. Future net revenues are based on prices and costs prevailing at year-end.

Provision is made for future abandonment costs of oil and gas properties. This provision is charged to earnings over the estimated life of the proven oil and gas reserves and is included in depletion and depreciation.

Depreciation

Service rigs are depreciated over the estimated useful life using a standard rate based on rental hours. Automotive and other office equipment are depreciated using the declining balance method at rates of 30% and 20% respectively.

Income Taxes

The Company follows the tax allocation method of accounting for the tax effect of the timing difference between taxable and accounting income. Timing differences arise when the Company claims capital cost allowances, resource deductions and other expenditures for tax purposes in amounts differing from those charged to expenses in the financial statements.

2. Acquisition of Petro Well Servicing (Petro Well)

On March 31, 1995, the Company acquired all of the issued and outstanding shares of a privately owned corporation, 604444 Alberta Ltd., which owns eleven well service rigs and operates under the name of Petro Well Servicing. As consideration, the Company issued a total of 2,875,000 Common Shares of Palliser with an ascribed value of $1,581,250. The acquisition has been accounted for using the purchase method and the results of operations of Petro Well has been included in these financial statements commencing April 1, 1995. On December 31, 1995, 604444 Alberta Ltd. was amalgamated with the Company. The following summarizes the fair value of the net assets acquired:

Notes to Financial Statements

	$
Fair Value of Assets Acquired:	
Cash Acquired	211,527
Service Rigs and Equipment	3,837,326
Working Capital Deficiency	(155,870)
Note Payable	(77,900)
Bank Debt	(1,280,000)
Deferred Taxes	(940,913)
	1,594,170
Purchase Consideration Allocation:	
Common Shares Issued	1,581,250
Acquisition Costs	12,920
	1,594,170

3. SEGMENTED INFORMATION

The principal business segments of the Company are in oil and gas exploration and well servicing in Canada. Selective financial information by each business segment is summarized below:

	Oil and Gas		**Well Servicing**	
	1995	1994	**1995**	1994
Revenue	**2,640,708**	2,909,886	**3,922,389**	0
Earnings before Depletion and Depreciation and Income Taxes	**963,825**	1,142,533	**502,931**	0
Depletion and Depreciation	**942,642**	903,333	**408,427**	0
Capital Expenditures	**2,347,528**	2,984,181	**714,574**	0

Identifiable Assets at December 31,

	Oil and Gas		**Well Servicing**	
	1995	1994	**1995**	1994
Property, Plant and Equipment	**9,239,589**	9,198,213	**4,143,473**	0
Current Assets	**860,136**	711,600	**1,276,522**	0
Total Assets	**10,099,725**	9,909,813	**5,419,995**	0

Notes to Financial Statements

4. Property, Plant and Equipment

	1995	1994
	$	$
Oil and Gas Properties	11,843,817	10,958,692
Accumulated Depletion	(2,693,707)	(1,861,948)
	9,150,110	9,096,744
Service Rigs	4,408,611	0
Accumulated Depreciation	(450,075)	0
	3,958,536	0
Automotive and other Equipment	377,773	141,785
Accumulated Depreciation	(103,357)	(40,316)
	274,416	101,469
	13,383,062	9,198,213

Included in oil and gas properties are assets with a net book value of approximately $3,300,000 (1994 - $3,100,000) that have no tax basis. During the year the Company capitalized $160,001 (1994 - $109,805) of administrative expenses to oil and gas properties.

5. Long-Term Debt

	1995	1994
	$	$
Revolving Bank Loan at prime plus 3/4%	1,820,000	1,400,000
Reducing Bank Loan at prime plus 1.5%	1,173,320	0
	2,993,320	1,400,000
Less: Current portion of Long Term Debt	248,920	0
	2,744,400	1,400,000

The revolving bank loan is repayable on demand, however, no principal repayments have been stipulated by the Bank for 1996 provided that the terms of the facility are complied with. At December 31, 1995, the Company had an unused portion of this credit facility of approximately $0.8 million (1994 - $1.1 million). The revolving bank loan is collateralized by a general assignment of book debts, oil and gas properties and their related production and a fixed and floating charge debenture of $3,000,000 covering all the assets of the Company.

The reducing bank loan is repayable at the rate of $35,560.00 principal reduction per month commencing June 26, 1996. This loan is collateralized by a general assignment of book debts from the Well Servicing Division, service rigs and their related equipment.

Notes to Financial Statements

6. Bank Operating Loan

The Company has a $750,000 operating loan facility in 1995 of which $320,000 has been drawn at December 31, 1995 (1994 - Nil). The operating loan is payable on demand at an interest rate of prime plus 1.5% and is collateralized by the same asset provided to the reducing bank loan (see note 5).

7. Share Capital

(a) Authorized - Unlimited number of Class A voting common shares
Unlimited number of Class B, C and D non-voting common shares
Unlimited number of Class E shares
Unlimited number of Class F convertible preferred shares

(b) Issued

	1995		1994	
	Number of Shares	**$**	Number of Shares	$
Class A				
Balance - beginning of year	**12,747,942**	**6,555,876**	9,865,563	4,836,219
Issued on a private placement basis	**0**	**0**	1,411,679	917,590
Issued on a flow-through basis, net of tax benefit	**0**	**0**	1,420,700	823,490
Issue costs, net of $42,000 tax benefit	**0**	**0**	0	(53,413)
Stock options exercised	**160,000**	**9,600**	50,000	31,990
Issued for Petro Well Servicing	**2,875,000**	**1,581,250**	0	0
Issue costs net of $14,535 tax benefit	**0**	**(18,500)**	0	0
Balance - end of year	**15,782,942**	**8,128,226**	12,747,942	6,555,876

(c) Earnings per Share

Earnings per share and funds from operations per share are calculated based on the weighted average number of 15,024,192 (1994 - 11,054,054) Class A shares outstanding during the year. Fully diluted per share data remains the same in 1995 and 1994 when assuming the exercise of stock options.

(d) Stock options

The Company has reserved 1,578,942 common shares under a stock option plan. At December 31, 1995 there were options outstanding on 1,299,500 shares (1994 - 1,189,000). These options are exercisable at prices ranging from $0.30 to $0.65 over a period of five years. During the year 342,500 (1994 - 675,000) options were granted, 160,000 (1994 - 50,000) options were exercised and 72,000 (1994 - 75,000) options had expired.

(e) Flow-Through Shares

In 1994, the Company issued 1,420,700 flow-through common shares for a consideration of $994,490 . Under the terms of the agreement, the future income tax deductions of the related capital expenditures have been renounced to the subscribers. The oil and gas properties and share capital accounts have been reduced by the estimated income tax benefit of $171,000 as a result of the renunciation.

Notes to Financial Statements

8. Income Taxes

The provision for income taxes differs from the expected provision arrived at by applying the combined Canadian income tax rate of 44 percent (1994:44 percent) to the earnings for the year as summarized below:

	1995	1994
	$	$
Earnings for the year	**115,687**	518,200
Expected provision at 44%	**50,902**	228,008
Adjustments as a result of:		
Crown royalties and		
other non-deductibles	**176,793**	110,183
Alberta royalty tax credit	**(97,846)**	(57,757)
Resource allowance	**(127,372)**	(185,096)
Depletion of assets without a tax base	**108,368**	146,198
Utilization of prior year's losses	**0**	(7,830)
Actual tax provision	**110,845**	233,706

9. Related Party Transactions

Included in accounts payable at December 31, 1995 is $250,000 (1994 - nil) due to a related company and $50,409 (1994 - $41,408) due to a director and a company controlled by the director. This director is also the holder of the $77,900 note payable (1994 - nil) which is non-interest bearing and has no specific repayment terms.

Included in accounts receivable at December 31, 1994 was a loan receivable of $13,000 from an officer of the Company advanced for the purpose of acquiring common shares of the Company. This loan, which was non interest bearing, was repaid during 1995.

10. Commitments

The Company is committed under lease agreements for premises rental expiring December 1996 as follows:

1996	$96,000
	$96,000

Corporate Information

Board of Directors

William Tobman - Chairman
John R. Perraton, Q.C. - Secretary
Jan Horejsi
Ken Scott
David Blank
John Niedermaier

Audit Committee

Jan Horejsi - Chairman
David Blank
William Tobman

Management

William Tobman - President
Harry F. Gabel - Vice-President
John Y. Ho - Chief Financial Officer
Roman Makar - Geologist

Well Servicing Division

PETRO WELL SERVICING
James Fleming - General Manager
1440, 700 - 4th Ave. S.W.
Calgary, Alberta T2P 3J4
Telephone: (403) 263-2811
Fax: (403) 263-2852

Banking

National Bank of Canada

Solicitors

Burstall Ward
Field & Field Perraton

Auditors

Coopers & Lybrand

Listing

Alberta Stock Exchange, symbol PSR.A

Registrar and Transfer Agent

R-M Trust Company
Calgary, Alberta

Head Office

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